

Message Text

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C O N F I D E N T I A L SANTIAGO 5659

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SUBJECT: MEETING WITH EX-PRESIDENT EDUARDO FREI

1. SUMMARY: FREI BELIEVES THAT IF JUNTA'S ECONOMIC AUSTERITY POLICY IS NOT SUCCESSFUL, GOC MILITARY ARE LIKELY TO MOVE TOWARD A PERUVIAN-TYPE POPULISM. HE IS CONVINCED, HOWEVER, THAT SOONER OR LATER THE MORALE AND SELF-CONFIDENCE OF THE PRESENT REGIME WILL DETERIORATE, PERHAPS QUITE RAPIDLY. AT THAT STAGE, NON-MARXIST PARTIES INCLUDING THE CHRISTIAN DEMOCRATS SHOULD BE PREPARED TO PARTICIPATE IN GOVERNMENT WITH THE MILITARY, ON BASIS OF A RETURN TO FULL DEMOCRATIC INSTIUTIONALITY AT THE RIGHT TIME. MEANWHILE, USG, WHILE MAINTAINING ECONOMIC AID, SHOULD CONTINUE TO MAKE CLEAR ITS DISAPPROVAL OF REPRESSIVE JUNTA PRACTICES. END SUMMARY.

2. DURING AND AFTER SMALL DINNER EVENING AUGUST 18 I ENGAGED IN AN INTERESTING TOUR D'HORIZON WITH CHRISTIAN DEMOCRATIC PARTY (PDC) LEADER AND EX-PRESIDENT EDUARDO FREI, TOUCHING UPON MANY ASPECTS OF CHILE'S CURRENT PROBLEMS.

3. IN GENERAL, FREI CONTINUES STRONGLY TO DISAPPROVE OF THE DOMINANT TENDENCIES WITHIN THE JUNTA. HE DEPLORES THE NARROWNESS AND RIGIDITY OF CHILE'S PRESENT MILITARY LEADERS, AND THEIR INCAPACITY TO REALIZE THAT, AS HE SEES IT, UNLESS THEY TAKE STEPS TO AMELIORATE ECONOMIC HARDSHIP AND POLITICAL REPRESSION, THEY MUST EVENTUALLY LOSE VIRTUALLY ALL SUPPORT AMONG THE PEOPLE.

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4. IN REVIEWING THE CURRENT SITUATION, FREI WAS ESPECIALLY BITTER OVER WHAT HE REGARDS AS A CLEAR DETERIORATION IN THE HUMAN RIGHTS SITUATION DURING THE LAST FEW MONTHS. WHILE PDC ELEMENTS HAVE MAINTAINED THEIR COHESION UNDER VERY DIFFICULT CIRCUMSTANCES IN MOST SOCIAL AND ECONOMIC GROUPS, THEY ARE BEING HARD HIT IN THE TRADE UNIONS. THIS HE CONSIDERS A MATTER OF CONSCIOUS GOVERNMENT POLICY, AND IT HAS ALREADY RESULTED IN A SERIOUS WEAKENING OF PDC INFLUENCE IN THE MINE UNIONS. PARADOXICALLY, THE COMMUNISTS, WHO WORK QUIETLY BEHIND THE SCENES, ARE FAR BETTER ABLE TO SURVIVE GOVERNMENT HARASSMENT THAN THE CHRISTIAN DEMOCRATS, SO THAT WHAT IS HAPPENING IN THE UNIONS CONFIRMS WHAT HE AND OTHER CHRISTIAN DEMOCRATS HAVE BEEN TELLING US IN THE PAST -- NAMELY, THAT IF THE GOVERNMENT SUCCEEDS IN FRAGMENTING AND DESTROYING THE PDC, THE RESIDUAL BENEFICIARY WOULD BE THE LOCAL COMMUNIST PARTY.

5. FREI CONTINUES TO BELIEVE THAT THE JUNTA'S ECONOMIC AUSTERITY POLICY IS BADLY CONCEIVED FOR A COUNTRY IN CHILE'S CIRCUMSTANCES. HE THINKS TOO HIGH A SOCIAL COST IS BEING PAID IN THE EFFORT TO CURB INFLATION. THE ONLY BENEFICIARIES OF THE GOVERNMENT'S POLICY ARE THE "PIRANHAS," THAT SMALL GROUP OF MONOPOLISTIC CAPITALISTS WHO HAVE BEEN PROFITING FROM FINANCIAL MANIPULATION AND WHO CAN PICK UP ON THE CHEAP THE GOVERNMENT-OWNED ENTERPRISES THE JUNTA IS SELLING BACK TO PRIVATE OWNERS. FREI BELIEVES THAT, IN CHARACTERIZING STATE DEFICIT SPENDING AS THE FUNDAMENTAL CAUSE OF INFLATION, THE GOVERNMENT IS IN ERROR. IN FACT, HE THINKS, OVER 50 PERCENT OF THE INFLATION ORIGINATED IN THE BANKING SYSTEM INCLUDING THE PRIVATELY OPERATED "FINANCIERAS." IN ANY EVENT, HIS ECONOMIC ADVISERS ARE TELLING HIM THAT THE GROSS DOMESTIC PRODUCT IN CHILE IN 1975 WILL BE 10 PERCENT BELOW THE 1974 LEVEL -- AN UNPRECEDENTED COLLAPSE AND A DRAG ON THE ECONOMIC FUTURE.

6. FREI'S PRESCRIPTION FOR ECONOMIC RECOVERY INVOLVES SOME REFLATION, SOME CONTROLS, AND A LARGE INFUSION OF FOREIGN AID. HE THINKS IT PROBABLE, HOWEVER, THAT IF AS HE EXPECTS ECONOMIC CONDITIONS CONTINUE TO BE DEPRESSED FOR THE NEXT THREE OR FOUR MONTHS, THE JUNTA WILL TURN TO A POPULIST PROGRAM GENERALLY ALONG PERUVIAN LINES. FREI POINTS OUT THAT THE CHILEAN OFFICER CORPS IS PREDOMINANTLY LOWER MIDDLE CLASS; THAT IT IS

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SUSPICIOUS OF THE BIG-MONEY OPERATORS AND BUSINESSMEN; AND THAT THE USE OF GOVERNMENT CONTROLS TO MANAGE THE ECONOMY CAN BE JUSTIFIED IN AN ANTI-MARXIST AS WELL AS A MARXIST FRAMEWORK.

7. WHETHER OR NOT THE JUNTA REACTS IN THIS WAY, FREI THINKS ITS DAYS ARE SURELY NUMBERED. AFTER A SERIES OF ADVERSITIES, HE EXPECTS ITS MORALE AND SELF-CONFIDENCE TO DECLINE. AT THAT STAGE HE THINKS IT PROBABLE THAT THE MILITARY WILL RESTORE

CIVILIANS TO FULL PARTICIPATION IN GOVERNMENT AS THE BEST WAY OUT OF THEIR DIFFICULTIES. FREI CLEARLY EXPECTS THE CHRISTIAN DEMOCRATS TO PLAY A LEADING ROLE AT THIS JUNCTURE. WHILE HE DOES NOT INDICATE WHAT HIS OWN POSITION WOULD BE, HE ENVISAGES A BROAD COOPERATIVE EFFORT BY THE PDC, IN CONJUNCTION WITH THE REMNANTS OF THE RADICAL PARTY AND MODERATE SOCIAL DEMOCRATS, AND EVEN THE CONSERVATIVE NATIONALISTS WORKING TOGETHER ON A BASIS OF NATIONAL UNITY, IN COLLABORATION WITH MILITARY LEADERS WHO WOULD REPLACE THE PRESENT JUNTA. UNDER THIS SCENARIO, THE COUNTRY COULD MOVE GRADUALLY TOWARD THE RESTORATION OF A REPRESENTATIVE SYSTEM OF GOVERNMENT SUITED TO THE NEW CIRCUMSTANCES.

8. DISCUSSING THE POSITION OF THE UNITED STATES, FREI MADE A NUMBER OF INTERESTING OBSERVATIONS. FIRST, HE THOUGHT IT UNFORTUNATE THAT LARGE ELEMENTS OF THE AMERICAN PRESS AND AMERICAN OPINION HAD A MISTAKEN IMPRESSION OF ALLENDE, REGARDING HIM AS A HUMANITARIAN AND DEMOCRATIC SOCIALIST RATHER THAN A COMMITTED MARXIST. FROM THIS MISAPPREHENSION THERE FLOWED AN INEXACT APPRECIATION OF THE CIRCUMSTANCES LEADING TO CHILE'S PRESENT PLIGHT. SECOND, AND EQUALLY UNFORTUNATE, THE RIGHTISTS IN CHILE THINK OF THE US AS A BADLY CORRUPTED DEMOCRACY, WITH ITS SPIRIT ERODED BY PERMISSIVENESS AND ITS WILL TO COMBAT COMMUNISM SAPPED BY DETENTE. THESE MISCONCEPTIONS NEEDED TO BE CLEARED UP.

9. AS TO US POLICY, FREI BELIEVED THAT THE US GOVERNMENT SHOULD CONTINUE WITH ECONOMIC AID FOR CHILE. IT SHOULD SIMILARLY CONTINUE TO MAKE CLEAR ITS DISAPPROVAL OF CHILE'S HUMAN RIGHTS PRACTICES AND THE ANTI-DEMOCRATIC STANCE OF THE JUNTA.

10. FREI HAS LITTLE USE FOR THE ACTIVITIES OF THE ANTI-JUNTA CHILEAN EXILES. ON THE WHOLE, HE THINKS THEIR UNREMITTING

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PROPAGANDA ACTIVITIES HAVE DONE MORE HARM THAN GOOD. THEY HAVE CONTRIBUTED TO THE JUNTA'S EFFORTS TO CONVINCE THE PEOPLE THAT CHILE IS STANDING ALONE, LIKE DAVID AGAINST GOLIATH, IN RESISTING THE WORLD-WIDE RAVAGES OF COMMUNISM. FREI CONSIDERS PARTICULARLY UNFORTUNATE THE PARTICIPATION BY PDC EXILES IN THE RECENT VENEZUELAN MEETING WHICH RESULTED IN A DECLARATION ADVOCATING A BROAD UNITED FRONT WITH CERTAIN MARXIST ELEMENTS. NOT MORE THAN TWO PERCENT OF THE PDC, HE SAYS, SHARE SUCH IDEAS.

11. FREI SAID THAT THE PDC WAS PREPARING A WRITTEN STATEMENT OF ITS CURRENT POSITION, BUT THAT HE FELT IT WOULD BE INADVISABLE TO DISSEMINATE IT BEFORE THE SECOND ANNIVERSARY OF THE JUNTA,, SEPTEMBER 11. HE EXPECTS A MAJOR JUNTA POLICY PRONOUNCEMENT AT THAT TIME.

12. COMMENT: WHILE FREI'S THINKING HAS DEVELOPED AS THE JUNTA'S PROBLEMS HAVE EVOLVED, HIS BASIC APPROACH REMAINS WHAT IT HAS BEEN OVER THE LAST YEAR. HE DOES NOT BELIEVE A PURELY CIVILIAN GOVERNMENT OR ELECTIONS ARE IN IMMEDIATE PROSPECT. DESPITE REBUFFS FROM THE JUNTA, HE STILL FORESEES THE POSSIBILITY OF A GRADUAL INFUSION OF CIVILIANS INTO A RECONSTITUTED JUNTA AS A MEANS OF MOVING BACK TO A MORE TRADITIONAL CHILEAN FORM OF GOVERNMENT. HE UNDERSTANDS THE LIMITATIONS ON US OR OTHER FOREIGN INTERVENTION IN CHILE AT PRESENT AND APPEARS GENUINELY TO WANT US TO APPRECIATE THE EFFORTS OF THE PDC TO CONTINUE AS A SIGNIFICANT FACTOR ON THE LOCAL SCENE AND A PRIME CONTRIBUTOR TO CHILE'S FUTURE. IN SHORT, HSS IS A RESPONSIBLE APPROACH TO A VERY TOUGH SITUATION.
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